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## Israelis To Build In Arab Jerusalem

### Decision and Vote On Funds Ignore Bush's Position

By Jackson Diehl

Washington Post Service

JERUSALEM — The Israeli government, continuing to defy pressure from the Bush administration, announced Friday a new Jewish settlement in East Jerusalem and won parliamentary approval for \$6.5 million in investments in the occupied territories.

The steps occurred amid the first signs of open opposition within the cabinet of Prime Minister Yitzhak Shamir to his large-scale program

Israeli leaders were staggered by U.S. firmness over delaying a loan for refugee resettlement. Page 5.

of settlement construction in the West Bank and Gaza Strip.

The campaign has infuriated President George Bush and reportedly prompted his move to delay Israel's request for \$10 billion in U.S. loan guarantees.

Finance Minister Yitzhak Mordechai told the Hebrew newspaper Yedioth Ahronoth that "there is no particular need to anger the Americans," on the settlement issue. Calling for Israel to scale back its building to the pace of the previous, centrist government, he added that "accelerated building in the territories as a deliberate provocation" against the United States "is an act of stupidity of the highest order."

Mr. Mordechai moved earlier this month to slash the budget of the Housing Ministry, which under Ariel Sharon is carrying out the largest settlement building program in the 24-year history of Israel's rule of the territories. Although the cabinet approved the cut, Mr. Sharon has vowed to proceed with plans to start construction on thousands more units in the West Bank and East Jerusalem.

The minister complained that his Finance Ministry had not been given "reliable information" about the building by Mr. Sharon. The Finance Ministry knew of only 3,000 units in the territories, he said, while Mr. Sharon recently announced that 16,000 were already under construction.

A spokesman for the Housing Ministry confirmed reports in Israeli news organizations that Mr. Sharon has planned a new Jewish neighborhood in Arab East Jerusalem on land owned by Arabs. The new development would be situated between the central Arab neighborhood of Sheikh Jarrah and Mount Scopus, where Hebrew University has a campus. Officials said it would be placed in what is now an olive field and would include 300 apartment units for Jews.

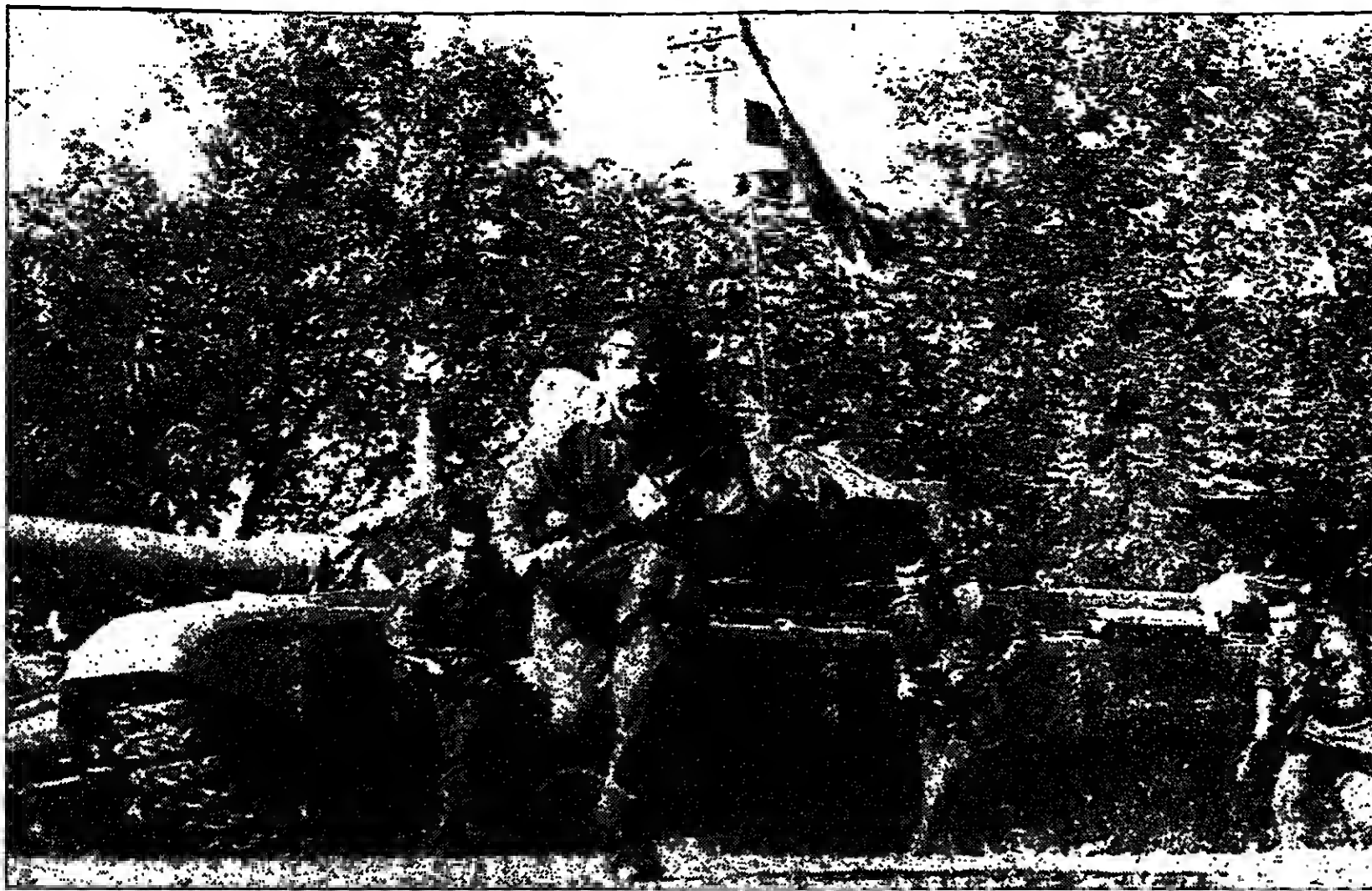
A spokeswoman for the Jerusalem municipality confirmed that Mr. Sharon had met earlier this week with Mayor Teddy Kollek to discuss preliminary plans for the neighborhood. She said no final decision was taken on the project.

The government also won the approval of the parliamentary Finance Committee to spend \$6.5 million in the territory on infrastructure projects for Jewish settlements. The committee, which is controlled by the government coalition, postponed its action by several days to avoid acting during the latest visit to Jerusalem of Secretary of State James A. Baker 3d.

After a vote that divided along party lines, an opposition deputy, Chaim Ramon of the Labor Party, told Israeli radio that, according to the government's proposed budget for 1992, up to \$2 billion would be invested in Jewish settlements and infrastructure in the occupied territories. Israeli radio said that the figure had been confirmed by officials of the central bank.

"To invest more money in the settlements is close to insanity," Mr. Ramon told the radio.

But Michael Eitan, a Likud Party member of the committee, said on radio that the settlement drive would be considered. "No one will dictate prohibition of Jewish settlement here," he told the radio.



Yugoslav Army soldiers leaving the cover of their tank on Friday during a battle with Croatian forces in the town of Vukovar in eastern Croatia.

## EC's Missteps: Did They Fuel Yugoslav Conflict?

By Joseph Fitchett

International Herald Tribune

BRUSSELS — Miscalculations by some European Community leaders, essentially France and Germany, may have fanned the flames they were trying to douse in Yugoslavia, U.S. and European officials said Friday.

Voicing dismay at the collapse of the EC's highly publicized bid to set up a peacekeeping force, the officials said that European leaders' pledges of action hardened the determination of both Serbian and Croatian leaders to press for a military showdown, even at the cost of all-out civil war.

"The Croats decided that the more ground they lost, the stronger became the chances of a European intervention to save them," according to a key official involved in the EC mediation.

As EC declarations of purpose proved empty, the Croats were exposed to deeper encroachments. Similarly, the Serbian forces' offensive has been spurred by

the impression of an imminent EC intervention that could halt their gains.

Defending the EC efforts against what he said were "misplaced criticism," Pierre Champenois, head of the

The EC conference on political union is expected to produce limited results. Page 9.

EC's political cooperation secretariat, said that "it has always been clear that the EC could not provide a substitute for the lack of negotiating will among the parties."

With the Community now trying to take the problem to the United Nations Security Council, several officials suggested that the EC's most useful course would be to abandon its mediation effort, which has a formal cutoff date in early October.

"We said that we would give them three months and a framework," which has proved unavailing, Mr. Champenois said. He was speaking at a conference of

See EUROPE, Page 5



## Army Launches Tank Attack in Eastern Croatia

### 2 Major Towns Are Shelled In Biggest Fighting of War

By Blaine Harden

Washington Post Service

ZAGREB, Yugoslavia — The federal army launched its largest and most violent offensive of the Yugoslav civil war on Friday, sending a huge column of tanks and artillery into the secessionist republic of Croatia and shelling two major eastern towns.

Other columns of tanks and troops cut through the republic of Bosnia-Herzegovina, reportedly bound for western Croatia.

A Yugoslav Army general confirmed that at least one armored column was bound for cities in eastern Croatia. It consisted of about 700 pieces of equipment, including 100 tanks, cannons and howitzers and armored troop transports.

"The war is going on there. There is no cease-fire," said General Andrija Raseta, a Serb and the deputy commander of federal forces in Croatia. He was referring to a now-shattered truce that was signed on Tuesday by the army and leaders of the republics of Croatia and Serbia.

The army attack, coming eight days after Croatian forces imposed a blockade of food, water and electricity on army barracks across the republic, has triggered "the biggest fighting of the war so far," according to Croatia's minister of information, Branko Salaj.

"It would seem that the aggressor has decided he wants to make a final move," Mr. Salaj said. "It would seem to be the idea that they will take the towns of Vukovar, Vinkovci and Osijek."

Belgrade radio reported that the army had broken through Croatian defenses on the outskirts of Vukovar, which has a population of about 80,000. The largest town in the region, Osijek, came under sustained air and artillery bombardment, and a major heating-oil storage center was set ablaze.

All three of the towns have been under attack for weeks by Serbian guerrillas, who are supported by

the republic of Serbia. The guerrillas, who now control more than one-third of Croatia, have been fighting alongside the Serb-dominated federal army.

About 500 people have been killed in the civil war.

The army's movement through Bosnia on Friday threatened to spark an ethnic explosion among that republic's volatile mix of Muslims, Serbs and Croats.

Armed civilians raised barricades to stop military convoys in two small towns in Bosnia, near the city of Mostar. In the Bosnian capital, Radio Sarajevo described "a war situation" where civilians tried to block a column of 35 military buses and 100 armored vehicles.

The nominal leader of the Yugoslav federal government, President Slobodan Milosevic, said Friday night that Serbian generals in the army were beyond any civilian control.

"There is a military coup," Mr. Milosevic said. "The generals will not obey." Mr. Milosevic is a Croat who heads the collective presidency, an eight-member body that under the Yugoslav constitution is supposed to command the army.

Mr. Milosevic attempted to order all lower-ranking officers and soldiers to desert their posts immediately and not take part in what he termed the "illegal" invasion of Croatia.

"I call upon all those who have taken up arms, who are executing orders that the presidency has not made, to go over to the side of the people," he said.

His order, however, seemed unenforceable. The spreading civil war between Yugoslavia's two largest ethnic groups, Serbs and Croats, has gutted the authority of the federal government.

A demand on Thursday by the federal prime minister, Ante Markovic, a Croat, for the resignation of the minister of defense, General Veljko Kadijevic, a Serb, has been ignored.

The responsibility of the federal See CROATIA, Page 5

## Bush Aides Divided on Iraq Policy

By Ann Devroy and John Lancaster

Washington Post Service

WASHINGTON — Behind President George Bush's pressure on Iraq to allow unimpeded helicopter searches for its hidden weapons is a broader administration debate centered on the belief of some senior U.S. officials that only the use of military force will persuade President Saddam Hussein to relinquish his arsenal.

Interviews with several administration officials indicate that Brent Scowcroft, the national security adviser, most strongly holds the view that Mr. Saddam's efforts to stall inspections require a "qualitatively different stage of response" backed up by credible moves toward military enforcement.

Mr. Scowcroft, described by officials as "ready to lower the boom" on Iraq, is countered by Defense Secretary Dick Cheney, who officials said contended, with the backing of General Colin L. Powell, the chairman of the Joint Chiefs of Staff, that a military show of force was premature. Mr. Cheney also was said to argue that a move to use U.S. warplanes to escort helicopters making inspection tours with teams from the United Nations should have behind it vast military power to protect U.S. forces and ensure success.

Some of that byplay over how to deal with Iraq's intransigence was

See IRAQ, Page 2

## 'Realistic' Soviet Attitude Chips at Brady's Doubts on Aid

By Steven Mufson

Washington Post Service

MOSCOW — By the time Treasury Secretary Nicholas F. Brady had toured Lenin's Tomb this week, he was convinced that Soviet leaders were finally ready to lay communism to rest. As a result, the United States might be ready to play a bigger role in assisting the Soviets with their ailing economy.

Mr. Brady has been a skeptic of past Soviet initiatives for economic change, saying during a Soviet delegation's visit to Washington in the spring that the Soviets were still using a "different vocabulary" from Americans and speaking the language of a command economy.

And he still sounded a note of doubt this week when he gazed out from a window of St. Basil's Cathedral onto Red Square and wondered, "You think about Yeltsin, one man, standing up to the coup and about the 20,000 people who stayed out there all night. Where was everybody else?"

But for the most part, Mr. Brady was persuaded

that in the aftermath of the failed August coup, the current Soviet leaders want radical change. "These are serious and realistic people," he said, "and their attitudes are serious and realistic toward their own problems."

Before the London economic meeting of the Group of Seven major industrial nations, the United States was pressing the International Monetary Fund to take the leading role in aiding the Soviet Union, in part to avoid a bidding war between Western powers seeking political and trade advantages with the Soviets.

But the coup attempt and the rapidly deteriorating Soviet economy has forced the Bush administration to take a more active interest in events here. Mr. Brady said this week that the IMF should grant the Soviet Union special associate status in the next few days.

In part, the sheer magnitude of the economic problems here makes it unlikely that the Soviet Union will pose a threat to the United States

See BRADY, Page 5

## Crankiness in Russian Parliament

By Francis X. Clines

New York Times Service

MOSCOW — The Russian parliament vented its frustration over the failing economy Friday by adopting a motion to recognize the obvious: that changes have been unsatisfactory and inefficient and that new approaches and ministers had better be tried fast.

The motion was nonbinding and not particularly important except as a measure of the elected politicians' edginess at being held increasingly responsible for the economy now that centralized communism has been effectively banned as a government instrument.

In the four weeks since an aborted coup brought about the collapse of the central government and the Communist Party's hegemony, the public's worries have shifted increasingly from the Kremlin to the pocketbook. A new opinion survey shows

that almost 70 percent of those polled were most concerned with rising prices, while only 8 percent cared much about the "disintegration of the Soviet Union."

Legislators in the Russian parliament criticized the year-old cabinet of President Boris N. Yeltsin, who was popularly confirmed by voters three months ago, even as cabinet ministers pointed out the enormous task of digging out from under seven decades of communism.

The lawmakers seemed to concede as much, stepping back from the more forceful question of taking a no-confidence vote in the Yeltsin government, and instead voting, 134 to 19, to express how "unsatisfactory" the planned economic recovery has been.

Rather than directing their ire at Mr. Yeltsin, the hero of resistance to the coup, they sought to

See ECONOMY, Page 5



A smoked fish, with or without the vodka, smelled good Friday at a market stall in Moscow.

## Kiosk

### Castro Is Due to Fall, Bush Says

CHICAGO (Reuters) — President George Bush said Friday that Fidel Castro's power as president of Cuba was crumbling, and he predicted that Cuba soon would become a democracy. "One more event will demonstrate to one and all that we really have entered into a new era of freedom and opportunity," Mr. Bush said in remarks prepared for delivery to a Hispanic group. "I'm speaking of Cuba's becoming free and democratic."

"Today we hear the creaking and crumbling of Castro's dictatorship," he said.

General News  
President Aquino faced pressure to drop his plan for a referendum on Subic Bay. Page 2.  
Crawford Page 5.

Dow Jones	The Dollar
3,019.25	DM 1.6844
Down	Pound 1.731
5.14	Yen 134.175
	FF 5.7405

## Laying Blame for British Riots Separates Church and State

By Glenn Frankel

Washington Post Service

LONDON — An old battle was resumed by new opponents Friday as the government and the Church of England squared off over the government's alleged failure to improve conditions in some of Britain's riot-torn inner cities.

The Archbishop of Canterbury, Dr. George Carey, sparked the controversy Thursday with a speech in which he suggested that government policies were at least partly to blame for recent disturbances by young people in bleak urban areas such as Newcastle.

"Human wrongdoing is inextricably linked to social deprivation, poverty, poor housing and illiteracy," Archbishop Carey told a meeting of religious high school principals. "The events we saw on our

television screens in Newcastle last week occurred where people were socially deprived."

Prime Minister John Major answered Friday, saying that last week's rioters "were not from deprived backgrounds" and that many of the incidents "were carefully preplanned."

Other Conservatives were harsher. Home Secretary Kenneth Baker, the cabinet secretary in charge of police affairs, told BBC Radio: "I have been waiting with increasing sadness for a senior churchman to speak out and condemn the acts of violence because the behavior of those young hoodlums should not be excused but roundly condemned."

Education Secretary Kenneth Clarke said Dr. Carey's criticisms of government school policy in the speech, showed he was "old-fashioned and opposed to change and has totally misunderstood things."

Verbal confrontations between church and state were regular events during the reigns of the controversial predecessors of Mr. Major and Archbishop Carey — Margaret Thatcher and Robert Runcie.

Mrs. Thatcher often portrayed church leaders as bleeding heart liberals, while Archbishop Runcie and fellow churchmen suggested that Mrs. Thatcher and her supporters had no hearts at all.

One of Mrs. Thatcher's acts during her last months in office was to appoint Archbishop Carey, himself the product of one of London's poorest East End neighborhoods, to replace the retiring Archbishop Runcie. The Archbishop is spiritual leader of the Church of England and of 70 million Anglicans throughout the world.

An evangelical enthusiast who pulled himself up from poverty, the new Archbishop was supposedly more sympathetic to the Thatcherite vision of self-improvement than his more liberal predecessor. But

he has been outspoken on religious issues and said he would not stay silent on social ones.

He told BBC Radio that he did not condone the rioters and agreed with the government that Britain needed moral leadership on issues such as urban unrest.

But then he complained, "So I give a moral lead and then people say I must not delve into social issues. But you see the Gospel is all about justice, and justice is about social issues." And he put officials on notice that he would continue what he called a "critical, creative relationship" with the government.

That was not good news for a government that is weighing whether to call an early election and seeking to draw attention away from what critics contend is its failure to deal with shums.











# Herald Tribune

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## At Mid-Life, a New UN

As it begins its 46th annual session, the United Nations is experiencing mid-life anxieties. Freed from its long preoccupation with Cold War rivalries, the world body has turned to its own internal aches and pains.

Renewal and reform are essential if the UN is to consolidate its unquestioned gains. A logical beginning would be the prompt approval of a new plan to overhaul its unwieldy, unresponsive bureaucracy.

How much the old order has changed was evident in this week's admission of three Baltic states, two Koreans, Micronesia and the Marshall Islands.

Flags for Lithuania, Latvia and Estonia eloquently confirm the demise of Stalin's empire. And though still bitterly at odds, North and South Korea at last sit in the same global parliament — a positive epilogue to a war that pitted U.S. armies fighting under the UN flag against a united Chinese-Soviet bloc.

That bloc has since disintegrated, but not the UN's bloc mentality. The five permanent members of the Security Council — the United States, Soviet Union, Britain, France and China — have long dominated secretariat jobs. This conflicts with the UN Charter's mandate for geographical balance. And Communist states have limited their designs to short terms, assuring their fealty to home capitals rather than the secretary-general.

A new plan, devised by 22 nations including the United States, would end these

archaic practices. It requires the secretary-general to designate senior officials on the basis of merit, keeping geography in mind, and to appoint more women. Terms of service could coincide with the secretary-general's. The plan also proposes four deputies with defined administrative realms, ending an unwieldy system in which as many as 40 senior officials report directly to the secretary-general.

These proposals grow out of an influential report by two seasoned UN hands, Sir Brian Urquhart and Erskine Childers. Finally, the report urges a systematic search for candidates to succeed Javier Pérez de Cuellar, whose five-year term as secretary-general ends Jan. 1. So far, the members have made little progress, in part because old habits persist. Blocs and regions are again advancing rival candidates without canvassing a wider field.

Experience warns that the decision will be delayed until the final moment, when frantic lobbying will result in a nominee whose chief merit is willingness to accommodate the jealous Permanent Five. Kurt Waldheim and Mr. Pérez de Cuellar were elevated by this process; the world got lucky the second time.

The UN will not achieve true maturity until more care is given to the choice of the man or woman who guides it. President George Bush, an old UN hand himself, could usefully develop the point when he addresses the General Assembly on Monday.

—THE NEW YORK TIMES

## An African Breakthrough

The Liberian people are closer than ever to the restoration of a lasting peace and genuine security in their war-torn country. In meetings in the Ivory Coast this week, Amos Sawyer, president of the interim government of Liberia, and the opposition leader Charles Taylor agreed to create the conditions for building a new Liberia.

Starting from the cease-fire that both sides continue to observe, the leaders agreed to disarm and encamp their troops in designated armories around the country. They also signed on to the creation of a five-member election commission to organize and supervise elections. And to ensure that elections disputes are resolved peacefully, Mr. Sawyer and Mr. Taylor agreed to set up a five-member supreme court to adjudicate any quarrels that may arise.

Most of West Africa's leadership had a hand in bringing about this landmark agreement. President Félix Houphouët-Boigny of the Ivory Coast chaired the meeting and brought the weight of the Francophone countries to the talks. The cooperative mood was boosted by leaders of Senegal, Nigeria, Burkina Faso, Gambia, Guinea-Bissau, Mali, Togo and Ghana, who gathered at the table to look over the Liberians' shoulders.

The participation of a united West Africa has enabled an otherwise hesitant Charles Taylor to accept the role of an expanded regional military force as the undisputed agent to oversee the transition. It is with that force, called Ecomog, that Liberia's guns and ammunition will be deposited. And Ecomog is charged with keeping the atmosphere clear enough to hold free and fair elections.

While Africans have held center stage in this drama, the United States has been in the wings. Vice President Dan Quayle used his recent visit to the Ivory Coast and Nigeria to press the presidents of both countries to support an African rather than an internationally imposed solution. Earlier meetings in Liberia between Paul Simon, the Senate Africa subcommittee chairman, and Senator Charles Robb of Virginia with Mr. Sawyer and Mr. Taylor underscored the bipartisan nature of the U.S. interest in finding solutions to the crisis. The Bush administration has offered extra financial support to the reinforced Ecomog effort. And former President Jimmy Carter has agreed to personally assist the Liberians with the electoral process. Liberians are getting a great deal of help. Now it's up to them.

—THE WASHINGTON POST

## In Space, Smaller Is Better

Budgetary and political pressures are forcing the U.S. space program in a welcome new direction. After decades of seeking to build ever larger and more complicated spacecraft, the NASA will rely on a smaller-scale approach for at least the next five years. Whether this is the most significant change at NASA in two decades, as one analyst suggests, or simply a temporary shift, as some officials see it, the change will inject a new sense of realism into programs swollen by grandiosity.

The agency is not lowering its sights with any great enthusiasm. It has been compelled by budget ceilings from Congress to find cheaper ways to carry out its missions.

And it has been prodded by the National Space Council and expert advisers to reshape one of its biggest projects.

NASA's plans have often been breathtaking, requiring huge space platforms that cost billions of dollars and take a decade to build. Big projects like the space shuttle, the proposed space station and astronomical observatories in the sky often command more political support and can achieve greater results than smaller, cheaper missions.

But not always. And bigness brings its own dangers: delays, cost overruns, starvation of small projects to pay for the big ones and, should a malfunction occur, a total loss of capability.

The space shuttle, for example, was a marvelous technical achievement that became a large liability when the Challenger accident grounded the fleet and there was no backup. The 12-ton Shuttle Space Telescope, the biggest space observatory ever launched, was supposed to bring a revolution in astronomy — until flawed mirrors blurred its vision. And the proposed space

station grew so large and costly that it had to be scaled back somewhat.

Now, in the most dramatic downshifting yet, the space agency is changing its approach to the proposed \$30 billion Earth Observing System, a series of orbiting platforms that will carry instruments to study environmental changes in the atmosphere and on earth. Plans had called for six large platforms, each crammed with instruments, to conduct a 15-year program of research. But there were fears that budget stringencies would force delays and that a single failure would wipe out a large array of sensors.

So NASA, prodded by an expert panel and the space council, is splitting at least half its big platforms into three smaller pieces. That will reduce the risks of failure, allow flexibility to change the program in midcourse, and possibly send some instruments aloft earlier than first planned. Other projects are also shrinking. A costly orbiting laboratory to study the sun will be postponed and two smaller satellites are planned instead. And a mission to bring back soil samples from Mars will likely be deferred, to be replaced with small landing devices that will radio back data.

Some researchers fear a loss of scientific information. But an advisory committee has urged NASA to shift emphasis from big missions to smaller projects that provide more frequent access to space and greater continuity of data.

Smallness is no panacea. It can sometimes be more costly to use several small platforms than a single large one. But smaller projects will provide greater versatility and will ensure that no space catastrophe wipes out a whole program.

—THE NEW YORK TIMES

## Other Comment

### A Narrow Path in the Gulf

World diplomacy must convince Saddam Hussein, a dangerous and sometimes uncomprehending leader, that he is in no moral or geopolitical position to put his unconditional UN resolutions that his government signed to end the war. President Bush has taken a step in that direction.

While the American impulse to drive a stake through this vampire's heart is never far from the surface, in fact the triumph of U.S. policy in the Gulf was its dogged

multinationism. Nothing that the Western allies did was done without the legitimizing mantle of UN resolutions. That was a key element in a success that was not only military but also diplomatic.

But all that has been achieved will be put at risk if the president abandons patient, step-by-step networking with the Security Council. The fact that Mr. Bush so far shows no sign of losing his way on this crucial point is the only reassuring element in this latest Gulf psychodrama.

—LOS ANGELES TIMES

## A Test of the UN's New Internationalism

By Stephen S. Rosenfeld

WASHINGTON — Everyone says the most important task facing the new session of the United Nations General Assembly — its first real post-Cold War session — is to elect a weighty and energetic secretary-general to replace the estimable Javier Pérez de Cuellar. It is widely accepted as a corollary that the UN should swiftly make the organizational reforms that will enable the new secretary-general to become a forceful and independent figure. The cheerful consensus evident on this point, however, is belied by the reservations held by the United States and other permanent Security Council members, not to speak of regular members of the General Assembly.

They want to be seen as enlightened supporters of the new internationalism that has been brought to a nice shine at the UN in the last few years. But they want to protect their national interests and privileges too. Almost everyone can agree on getting serious about finding a good man or woman for secretary-general and about streamlining and "depoliticizing" the secretariat and properly funding the organization as a whole.

Still, the United States is not the only country to ponder just how far it wants to go beyond making the UN more efficient. Does it want to build up an alternate power center that might compete with American national or bureaucratic interests? The Gulf experience hints at things to come. The UN was hastily constituted for its new liberating consensus style. But the secretariat could be heard grumbling that U.S.-Soviet cooperation edged it out of its appropriate and central mediator's role. This helps explain why wise heads like the British

Brian Urquhart, a former UN undersecretary-general, turned private agitator for reform, warns that a new secretary-general should possess not only the courage of his convictions but also the "common sense to avoid unnecessary difficulties."

In the Gulf, Mr. Bush's brand of internationalism involved mobilizing broad support for an essentially American-led intervention. It came under the political imprimatur but not the military command of the United Nations.

Certainly this was a long way from the go-it-alone unilateralism that was identified with American interventionism and with a conservative policy in Washington through much of the Cold War. That brand was generally opposed by the majority in the United Nations.

But it was also a long way from the sort of liberal internationalism that is defined as handing over some considerable share of American policy and power to the United Nations.

Here, of course, liberals reinforce the inevitable tendency within the secretariat to make the UN not so much an arena in which nations exercise their sovereignty as a major actor on its own. As it happens, the chief recent advocacy of this position has come from Moscow.

When he was Soviet foreign minister, Eduard Shevardnadze urged that an international force of blue-helmeted soldiers under a UN committee's command respond to Saddam Hussein. Presumably he had in mind not promoting American

liberalism but leveraging the power of a fading Soviet Union by becoming the champion of collective security.

The less experimental, more practical, more America-centered Bush approach prevailed — working through the UN but essentially keeping national control. This approach is still being followed against Iraq. Will it be followed elsewhere? Perhaps not.

It is best to be safe, but there will be only a limited number of Saddam-like marauders whose offenses across a border are so great that they easily summon into being a countering international coalition. The likelier threats to the peace may come from ethnic disputes or political disorders within one state's borders. But as Yugoslavia shows, other governments may hesitate to come to the UN for fear that a precedent may be set justifying similar intervention in their own affairs.

The French call to the UN to take up the Yugoslavia question will provide a test.

A disarming paradox: No sooner does the UN start working more or less as its more hopeful founders intended — to keep the peace between nations on the basis of enlightened high-power consensus — than its relevance to the next phase of international order plummets.

This defines the UN's new security agenda: to set up as an agent or at least as a cover for the nations actually wielding the sticks and carrots, as the former diplomat Samuel Lewis has suggested, and to explore techniques of peacekeeping and peacekeeping that fit the new day.

The Washington Post

## For Israel, A Point of No Return

By Anthony Lewis

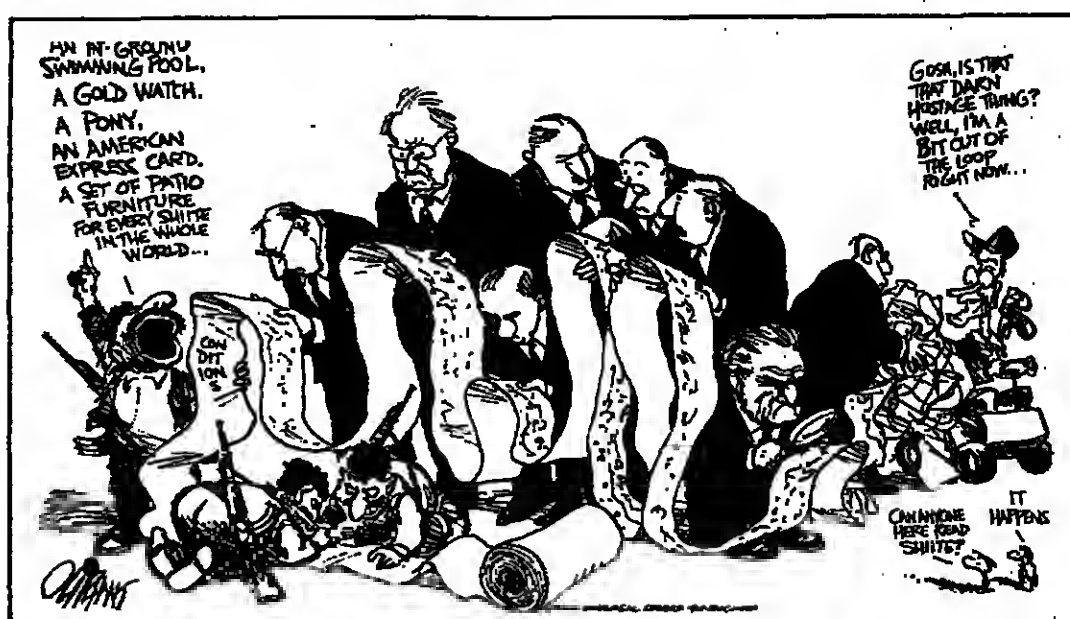
LOS ANGELES — It is important to be clear about the issue in the current dispute between the United States and Israel. It is whether Israel is going to annex the West Bank and Gaza in the years ahead without meaningful American objection.

The nominal subject of the conflict is Israel's request for \$10 billion in loan guarantees to help resettle Soviet Jews. The Israeli government and its American supporters say the guarantees must be approved at once, while President George Bush wants Congress to hold up considering the idea for four months.

But the very suddenness and haste of the Israeli request make plain what is really at stake. Prime Minister Yitzhak Shamir and his government want the United States to get committed to a new program without any change to past conditions on it — conditions that would inhibit the process of Israeli settlement in the occupied territories. The Israeli government gave the promise — but then used other funds to accelerate the building of settlements.

Settlements are rapidly bringing the occupied territories to the point of no return: a point where Israeli annexation is a reality, whatever the political pretense. That would be a fearful moment for all of us who yearned for the creation of the Jewish state and who hope for its safety and prosperity.

Israel would then be a binational state, with 1.7 million West Bank and Gaza Palestinians inside its borders. They would not have rights of the kind that Americans take for granted.



welfare, while shekels freed from those bogged down into the construction of at least 200 settlements... The American government agreeably played dumb.

The same thing happened with a first U.S. program of housing for Jewish refugees. The Bush administration insisted on a promise that the program would not be used to settle people in the occupied territories. The Israeli government gave the promise — but then used other funds to accelerate the building of settlements.

Settlements are rapidly bringing the occupied territories to the point of no return: a point where Israeli annexation is a reality, whatever the political pretense. That would be a fearful moment for all of us who yearned for the creation of the Jewish state and who hope for its safety and prosperity.

Israel would then be a binational state, with 1.7 million West Bank and Gaza Palestinians inside its borders. They would not have rights of the kind that Americans take for granted.

In short, Israel would have an alien people in its midst, and it would have to keep that people down by force forever. Forever, that is, unless the Israeli politicians who want to expel the Palestinians from their homes in the West Bank and Gaza — such as Rochan Zeevi, the ultra-rightist member of Mr. Shamir's cabinet who this week called President Bush an anti-Semite — have their way.

Such an outcome would be terrible for Israel, morally and politically. The Arab states on its borders will not make peace — the peace that Israel so needs — if settlement and annexation proceed.

There would be material consequences, too. Whatever aid the American government gives cannot be sufficient for the great humanitarian enterprise of absorbing the Soviet Jews. There must be investment by the industrial world, and that will not come in the needed amount if the situation on the borders and inside the country remains unstable.

## A Plan Is Needed to Stop Saddam, and All His Clones

By A. M. Rosenthal

NEW YORK — Spare us the sentimentalism and indignation that the Bush administration puts out about Saddam Hussein's toughness. Maybe then we will see how to get rid of the man.

Did President George Bush, after keeping Saddam Hussein in power, truly believe that he would accept defeat? But a lot of the rest of us can't believe that he would accept defeat. Mr. Bush really meant not just to save the Kuwaiti rulers but to end Saddam Hussein's tyranny, just because he did so. Luckily, there is not a crime in the United States — nor does it bring death as it did to the Kurds.

Done is done. But ending the be-fogging mood astonishment might give us clarity to see what to do now.

First, stop playing mouse to the Saddam cat. He grabs every chance to defy the UN, for military advantage and to great before the Muslim world. He carried out arms-collecting raids in contemptuous violation of the UN cease-fire line. He showed UN inspectors weapons and nuclear facilities — when they knew the exact sites. He blocked them with bullets or

bureaucracy from hunting for what they could not find down. And he continues to use war and terror against the Kurds and Shiite rebels.

Sending planes to protect the inspectors will stop him — once. Then he will move again, and again. Short range, a small but permanent and powerful military base in Iraq could provide continuous protection for UN operations. It would remind Iraq that its leader has sacrificed his sovereignty. But as Senator Al Gore, Democrat of Tennessee, and a handful of other members of Congress say until they are hoarse, the basic policy toward Iraq must change.

One pistol, though a happy thought, will not be enough. Iraq would remain under Saddam's fearful hand, and that party — like killing Hitler to promote Götterdaemmerung.

What's needed is what Mr. Bush has not come up with — a political strategy, understood by Americans and Iraqis, to remove Saddam Hussein and his state despotism.

The United States should give full political and public opinion support to the Kurds — and to the Shiite rebels too, instead of assuming no Iraqi dissidents want or can be trusted with freedom.

Food and medicine from Iraqi funds should be sent into Iraq and distributed by UN specialists — particularly to rebels and their families — under guard, without Saddam Hussein's permission.

War crimes tribunals should try Saddam Hussein and his top leaders in absentia, making it clear to all others that to stick with him is to invite the noose. Defectors should be protected, and rewarded.

Military action may be needed on a spot target basis. But if the United States at last uses its political and economic power against him, with the clear ethical goal of ending his tyranny, the war damage done to Iraq already should make repeated massive attacks unnecessary.

To bring the end of the tyranny, Mr. Bush must concede that Saddam Hussein and his gang are the agents of disorder and instability, not their victims. Only so can victory be reclaimed and the Gulf war be justified.

Otherwise, Saddam Hussein will continue to rule in Iraq, and continue to grow in power until he is ready to fight again — Saddam, the son of Saddam or the clone of Saddam.

The New York Times

## The Numbers Can Work for Democrats

By George F. Will

WASHINGTON — Refuting the arithmetic of fatalism is the challenge to any Democrat who would be America's president. It is a daunting task, but it can be done. The arithmetic turns on two numbers: 270 and \$500 billion. The former is the number of electoral votes needed to win. The latter is the size of the annual deficit, honestly calculated, is approaching. The deficit seems to make winning a barren exercise.

By 1993, two Republican presidents in a dozen years will have presided over the quadrupling of the national debt that existed when Ronald Reagan was inaugurated. Republican reckless governance and skillful politics have created today's dilemma for Democrats. For a Democrat, reaching 270 is difficult, partly because the deficit generates domestic policy paralysis. This makes foreign policy, the Bush claim to competence, the only arena of presidential action.

One question about 1992 is: Which Democrat can reclaim support recently lost from Southern whites and Northern minorities? One of every 16 urban Americans has been robbed or mugged, so almost every urbanite at least knows people who are victims of crime, and

He should be someone who knows that crime is not a code word for racism. It is a word for barbarism and misery. He should be someone with a strategy for running to fiscal daylight by generating growth for the economy generally rather than entitlements for factions. Someone who knows it is a scandal when not one of 4,000-plus domestic programs is killed by a bipartisan budget deal (that of last October). Someone who will run right at the incumbent on the ground that it is disgusting for Americans to be dying from stray bullets, and for schools and bridges and trauma care and much else to be falling while the president is preoccupied with line-iteming the demography of Judea and Samaria.

Could such a candidate win? Why not? The Berlin Wall is a million souvenirs, the Communist Party is proscribed in Russia, the Minnesota Twins have gone from last to first in a single season and the Atlanta Braves may yet do so. But George Bush losing is unimaginable? Can't Democrats comprehend how quickly a party can go (see the Republican Party, 1964-68) from being immaculate to being inaugurated?

Washington Post Writers Group

## IN OUR PAGES: 100, 75 AND 50 YEARS AGO

### 1891: Cheering a Suicide

VALPARAISO — There is a mingled feeling of savage rejoicing at Chile's ex-President Balmaceda's death, and of bitter regret that he should have killed himself instead of falling into the clutches of the infuriated populace, who would have been delighted to rend him limb from limb in revenge for his cruelties. It is impossible for anyone not in the country to realize the intensity of the hatred against Balmaceda. The holidays, which were to have ended yesterday (Sept. 19) have been prolonged by the news of the ex-President's suicide, and the feasts and illuminations have been followed by the marching through the streets of frenzied crowds shouting songs of triumph.

### 1916: Cartoonist's Crime

MADRID — The caricaturist Senor Bagaria appeared in a Madrid Court of Justice yesterday (Sept. 19) charged with having published a car-

## For Croats, A Question Of Survival

By Drazen Prelec and Marko Prelec

CAMBRIDGE, Massachusetts — A precedent is being set in the Yugoslav war and the world should take note. For the first time in this half-century, an old-fashioned war of territorial conquest is being pursued in the heart of Europe.

It is being waged because one side, the Republic of Serbia, covets the land and assets of its neighbors and, through its decisive influence in the Yugoslav Army, can inflict violence on them without fear of retaliation.

By pursuing this war, President Slobodan Milosevic of Serbia has escaped the ruin shared by Communist Party bosses elsewhere. He has been helped by Western willingness to view his actions as part of a tragic and intractable ethnic conflict. Croats have become a vast canvas of violence. Cities and villages are bombed by warplanes, artillery and tanks. Each day scores of people die in their homes, victims of apparently random shelling.

Even the capital of Croatia, Zagreb, has come under attack.

As always, the side inflicting the violence has prepared arguments that sanction its grasp for territory. It is said that border changes are required to accommodate the Serbian minority in Croatia, numbering 533,000, according to the 1981 census. Of these, 162,000 live in counties where they form a relative majority. Therefore, of the 8.2 million Serbs of Yugoslavia only 2 percent live in the ostensibly contested regions.

If there are sufficient grounds for border adjustments, then few borders anywhere are safe.

But are these Croatian territories, inhabited by one-fifth of the Serbian nation, the true prize in this bloody conflict? No.

The heaviest fighting is in Slavonia, a northeast Croatian region where Serbs form 17 percent of the population. But it has other attractions for Mr. Milosevic: It is Croatia's most fertile land and the site of a large oil field; furthermore, it abuts Serbia and can easily be annexed.

The Croatian counties where Serbs form a majority, however, are the most remote islands in the ethnic archipelago, separated from Serbia by the large populations of both Croats and Bosnian-Herzegovinians.

Far from being a "border adjustment," the capture of these few areas would wipe in the bulk of Yugoslav lands, including the Croatian coast.

It is said that the Croats and their neighbors, the Slovenes, are responsible for the crisis because of their pursuit of independence. This goal, once a nationalist slogan supported by few, has now become a precondition for national survival, supported by all.

The seeds were planted five years ago, after Mr. Milosevic took power in Serbia. The other republics recognized a mortal threat in his raw nationalism and coziness with army reactionaries.

As the West attempts to broker a peace it should remember that Mr. Milosevic, who has staked his political survival on success in this war, will not willingly release the territory he controls. For him the only function of a peace conference is to legitimize his gains.

With some ingenuity such a conference might find a formula that extends the right of self-determination to Serbs in Croatia, while denying it to the larger non-Serbian minorities in Serbia and elsewhere.

Will Europe perform this service for Mr. Milosevic?

At this critical moment the Yugoslav nations are not helped by European Community mediation efforts. The antagonists are so unevenly matched, studied neutrality will merely invite further escalation.

Instead, a clear gesture is needed to counteract the awesome forces concentrated illegitimately on one side. If the West declares the army an outlaw force, as it did with the coup leaders in the Soviet crisis, and if it withdraws diplomatic recognition from the shell state of Yugoslavia, the first signs of flexibility may surface in Belgrade.

Drazen Prelec teaches management science at Massachusetts Institute of Technology. Marko Prelec is a graduate student of history at Yale. They contributed this comment to The New York Times.

Letters intended for publication should be addressed "Letters to the Editor" and contain the writer's signature, name and full address. Letters should be brief and are subject to editing. We cannot be responsible for the return of unsolicited manuscripts.

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# Rembrandt: Centuries of Politics and an Unsolved Mystery

**B**ERLIN — It is not easy to handle a towering figure of Western art admired by so many that any major omission leaps to the eye and remains as a permanent irritant. The organizers of the Rembrandt show in the Gemäldegalerie in the Altes Museum must have been sorely aware of the problem while trying to get colleagues to part with their greatest treasures and, judging from the result, often failing.

True they have the satisfaction of knowing that no art lover will miss.

## SOUREN MELIKIAN

if he can help it, a display of 51 paintings by the master not seen together since the last Rembrandt retrospective in 1956. They are on view in Berlin until Nov. 10, before moving to Amsterdam, Dec. 4 to March 1, 1992, and later to London.

The etchings, in a separate section, will follow, but the drawings hung with the etchings will be taken down in Berlin on Oct. 27 and in Amsterdam on Jan. 19 — they cannot bear the exposure to light for long periods. These should not be missed either — they have never been displayed together with the master's paintings, a great idea that should shed much light on what may be called the Rembrandt mystery. But the mystery remains.

Few painters have been researched as intensively as Rembrandt since the Leiden-born son of a miller was rediscovered in the 1840s. Art had little to do with it at first, as Pieter van Thiel of the Rijksmuseum observes in an entertaining essay published by *Cronica des Arts*, the French monthly whose special issue, "Rembrandt," serves as the official exhibition guide.

Once the French art critics had drawn attention to Rembrandt's genius, he served as a pawn on the nationalist chessboard. The Belgians had broken away from the Netherlands, who recognized the fact in 1839. When the Belgians pushed Rubens as a national figure, erecting a statue in Antwerp in 1840, the Dutch pushed Rembrandt, whose statue went up in 1852 in Amsterdam.

The art came later. The first Rembrandt exhibition was held in Amsterdam in 1898; the Rijksmuseum acquired its first Rembrandt, "Landscape with Stone Bridge," in 1900. And then started the still unresolved debate about the hazy contours of the oeuvre. It took Wilhelm Bode and Cornelis Hofstede



Detail from "The Noble Slave," of 1632.

de Groot eight fat volumes to grant the Rembrandt label to 595 paintings. Alas, of the first 19 works, arranged chronologically, only one stands up, giving a distorted view of the Leiden period, van Thiel says, and a great many more would not pass the test of modern Rembrandt criticism.

This was followed by an inflation of Rembrandt's work, whose number peaked at about 750 in the 1920s, was cut down to 612 by Abraham Bredius in his 1935 catalogue raisonné ("without any particular justification for his choice... with sheer papal authority," says van Thiel disapprovingly), yet again by Kurt Bauch in 1966, and drastically so by Horst Gerson in his revised Bredius catalogue of 1969.

In the last few years, it is the Rembrandt Research Project, as its Dutch members call their investigation, that has been passing decrees without apparent coordination with other scholars such as

Claus Grimm, an art historian who enjoys the advantage of being a practicing painter and has just written an important book, "Rembrandt," published by Prestel.

The Berlin exhibition reflects the views of the Rembrandt Research Project, two of whose most active members have contributed interesting essays to the catalogue. None of that, however, begins to dispel the fundamental aesthetic mystery to the layman — the origins and meaning of this pageant of characters lost in interrogation, their eyes searching some impalpable reality, their faces half covered by shadows. If anything, the show makes the enigma more opaque by bringing two very early paintings, one from the year 1626, "Tobit and Anna With the Kid," and "The Rich Man From the Parable," dated 1627.

The former hardly looks like anything one is accustomed to associate with Rembrandt. It is a

dramatic, precisely done, full of fussy detail, from the drying garb hanging from a shelf to a wicker basket propped in a niche.

The second picture has more chiaroscuro to it, but looks like a joke, perilously close to kitsch. They are followed by a strange panel from Boston. A little man stands in the far corner at left with beady round eyes and eyebrows raised in worried surprise as he stares at the enormous easel seen by the viewer three quarters back. "A tiny question mark hovers over the attribution to Rembrandt" in the mind of a scholar, Christian Tümpel, the entry breezily notes. A bigger question mark hovers over what it is doing in the Rembrandt retrospective of the 1990s.

If these represent the early Rembrandt, the metamorphosis is astounding. It begins with the portrait of a young man wearing a soldier's gorget. He exudes the pride of youth and yet the eyes fix a point beyond the viewer's own, as if haunted by some awesome awareness. A shadow falls on the right side of the face, a device that recurs again and again in Rembrandt's work.

**W**ITH "Saint Paul at His Writing Desk," the transformation is completed. An old man in monk's robes sits wearily on a chair against a wall. Behind the dark indistinct mass of a table, light surges on the wall and lights a post supporting a beam at an angle that irresistibly leads the onlooker's gaze toward the old man, wistfully looking down. All unnecessary detail is eliminated.

The first truly great work, dated 1630, is "Jeremiah Lamenting the Destruction of Jerusalem," from the Rijksmuseum. A bearded old man in a long fur-trimmed robe leans back on an unrelenting rocky promontory, looking down beyond the stream of light that comes up from some abyss, at the dark apparition of a city far away. The muscular figure of a man pressing his fists against his eyes is Zechariah, the last king of Judah, blinded by Nebuchadnezzar. Near Jeremiah, a glinting basin filled with golden vessels symbolizes the looted riches.

From that moment, almost all of Rembrandt's work retains a visionary quality, including the subjects drawn from real life. One of the most extraordinary revelations in the show, the portrait of Agatha Bas from the royal collection at Buckingham Palace, shows a young woman seen through the frame of a window. Neat and prim, she holds a fan down and clutches the frame



Rembrandt's "Landscape with Stone Bridge," end of the 1630s, from the Rijksmuseum in Amsterdam.

of the window with the other hand, staring ahead with a searching yet slightly diffident look. It could be an icon for a Henry James story.

Unfortunately, revelations such as this are few and far between and the exhibition is short on the greatest among the greatest of Rembrandt's oeuvre.

The Louvre "Bathsheba" has made the trip, as well as "The Sampling Officials of the Amsterdam Draper's Guild." But it is hard to do without the famous Louvre portrait of Rembrandt's companion, one of his very greatest, or his self-portrait of 1660, and the list goes on.

The 32 works from his "workshop" or other contemporaries fall flat. Most are conventional, many banal, some dreadful, adding insult to injury. They look like fillers-in and while the opportunity to "study" may be gripping to art historians, dealers or collectors, it lets down the public of art lovers.

The drawings and etchings do not manage to redeem the show. Of

course, one makes discoveries. It is interesting to see how in two successive "states" of his etched portrait of "The Art Dealer," Rembrandt darkens the left side of the face to create that effect of maintainable remoteness. The transformation of "The Three Crosses" in the fourth state, where details of the seething crowd have been eliminated and the dramatic effect enhanced with nervous crisscross, is fascinating.

**T**HE brevity of some of the drawings, for which Rembrandt is much admired among the cognoscenti, is striking, particularly in the sketch of Hendrickje Stoffels asleep. But there could have been many more stunning drawings, easier to borrow than paintings. Some of the landscapes sold out of the Chatsworth collection, and others still there or in the Jan Woudner collection could perhaps have reinforced the admirable but lonely sketch with a mill from the Paris Institut Néerlandais.

The primary intention appears to have been to teach, to put forward the latest in Rembrandt research, and that is the problem. It makes the whole show look more like selected illustrations for a do-

ctorial dissertation than the unforgettable Rembrandt anthology some simple minds might have dreamed of. Crowds are guaranteed, but an opportunity has been missed.

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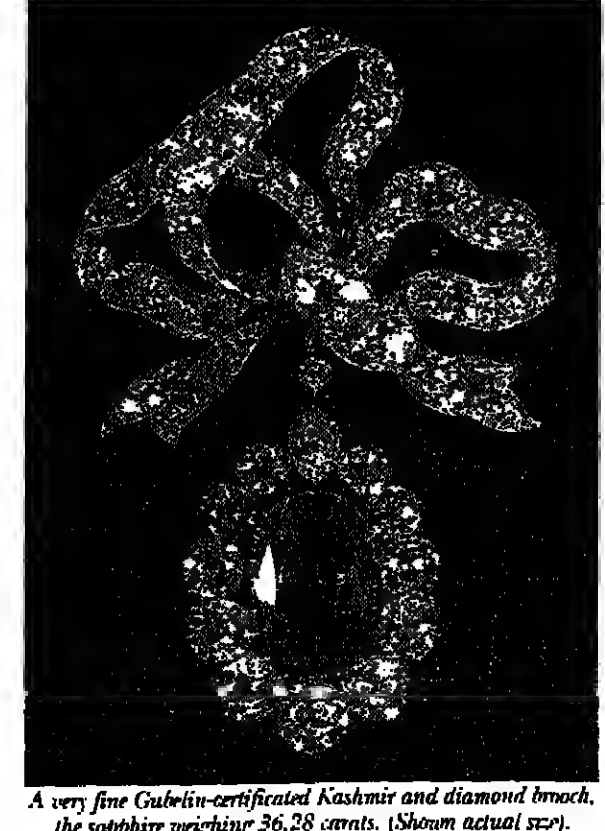
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**By Peter Passell**

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## MARKET DIARY

Blue Chips Mixed  
As Options Expire

NEW YORK — Blue-chip stocks ended mixed Friday on the New York Stock Exchange in trading that was mainly linked to the expiration of September stock and stock-index futures and options.

The Dow Jones industrial average was down 5.14 points to close

at 3,019.23, but was up 33.54 points for the week.

Broader measures gained. The NYSE Composite index of all listed common stocks rose 0.24 point to 212.92, and Standard & Poor's 500 index rose 0.36 to 357.92. Advancing issues outnumbered losers by a 3-2 margin.

Volume was heavy at 241 million shares, up from 217 million on Thursday, but traders said there was little action toward the end of

the session because of the option and futures expirations.

"Concern about expirations-related volatility kept many investors uninvolved, traders said."

"We're doing a lot of volume but we're not going very far," said Robert Caputo, director of research at Swiss Bank Corp. Investment Banking Inc. "Nervousness about earnings is probably keeping people on the sidelines."

J.P. Morgan shares topped the active list, up 1/4 to 58 1/2. Analysts said they are optimistic about the company's third-quarter earnings.

Goodyear Tire gained 1/4 to 43 1/2. Cablevision stocks rallied after a Hallmark Cards unit said it is acquiring an interest in Cencor Cable Associates.

Cablevision stocks rallied after a Hallmark Cards unit said it is acquiring an interest in Cencor Cable Associates.

Dollar Can't Sustain  
Its Moderate Rally

NEW YORK — The dollar fell Friday and the Deutsche mark gained across the board as interest rate differentials undermined the dollar's early rally.

Several dealers said the dollar could test support levels next week after its unsuccessful attempt to

States cut interest rates on Sept. 13.

"It was sort of a wild dollar/mark move but it died out early," said John Elliott of BankAmerica.

Traders said orders to sell from large speculators helped bring the dollar down.

Mr. Elliott said the dollar could test 1.6750 DM on the way down next week.

Bob Hatcher of Barclays Bank said the dollar's next move was likely to be another attempt to pierce 1.70 DM, not a test of the downside. "We lost a bit of steam today," he conceded, but added he saw nothing new in the German economic situation that would harm the dollar.

In late London trading, the dollar stood at 1.69 DM, slightly ahead of its Thursday level of 1.6865. The U.S. currency rose a bit against the Swiss franc, to 1.4770 from 1.4765, and more markedly against the French franc, to 5.7800 from 5.7510. The pound slipped to \$1.7265 from \$1.7275.

Against the yen, the dollar lost a little ground, to 134.40 from 134.45.

## Foreign Exchange

penetrate resistance around 1.70 DM. But others noted that tensions in the Middle East, the Soviet Union and Yugoslavia may cushion the dollar in any retreat.

The dollar finished at 1.6844 DM and 134.17 yen, down from 1.6875 DM and 134.40 yen at Thursday's close. The dollar had opened higher, at 1.6965 DM and 134.79 yen, after overseas gains.

The dollar closed lower against the Swiss franc, at 1.4705 after 1.4755 Thursday, and against the French franc, at 5.7405 after 5.7510. The pound was unchanged at \$1.731.

The dollar peaked early in the New York day at 1.6985 DM, the highest level since the United

Via Associated Press Sept. 20

## The Dow

Daily closings of the Dow Jones industrial average

3100

2950

2900

2850

2800

2750

2700

2650

2600

2550

2500

2450

2400

2350

2300

2250

2200

2150

2100

2050

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-700

-750

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-850

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-950

-1000

-1050

-1100

-1150

-1200

-1250

-1300

## Dow Jones Averages

Open High Low Close Chg.

Index 3034.21 3045.37 3022.44 3019.23 -5.14

Trans 118.04 119.04 118.04 118.04 0.00

Indus 107.34 107.34 107.34 107.34 0.00

Comp 107.34 107.34 107.34 107.34 0.00

SP 100 3034.21 3045.37 3022.44 3019.23 -5.14

NYSE Most Active

Vol. High Low Last Chg.

Morgan 10957 58 1/2 58 1/2 58 1/2 +1/4

AT&T 2251 22 1/2 22 1/2 22 1/2 +1/8

Amgen 2251 22 1/2 22 1/2 22 1/2 +1/8

Amgen 2251 22 1/2 22 1/2 22 1/2 +1/8

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## EUROPEAN FUTURES

Close High Low Prev. Chg.

Food

SUGAR (COT) 20.00 20.00 20.00 20.00 0.00

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# MONEY

## FIRST COLUMN

### Searching For Patterns In Politics

**A**N old joke that keeps making the rounds asks the question, "What is the secret of great comedy?" After an excessively long pause comes the answer: "Timing."

As in comedy, so it goes in investing. The question of when to buy and when to sell overwhelms many individual investors and keeps armies of well-paid analysts beavering away in the brokerage houses to determine just the right moment to dump IBM or buy General Motors.

In their search for the perfect investment signal, many analysts turn to charts. They hope to find some immutable pattern to market ups and downs — whether out of laziness, hoping to avoid long analyses of economic data, or a mystical belief that human behavior and events recur in predictable cycles.

Technical analysis can focus on short-term market movements, finding the perfect head-and-shoulders formation, perhaps, as an investment guide. Longer term, some analysts claim to have found patterns that range from the whimsical — the London stock market adage of "sell in May and go away" — to the more profound Kondratieff pattern, which sees economic and political events recurring in 50-to-60-year cycles.

ONE of the more intriguing patterns links stock market movements with election cycles. In the United States, according to the theory backed up by the adjacent chart, stocks rally strongly from the midpoint of the presidential term right up to election day after doing little the previous two years.

Unfortunately, as with other patterns, this one doesn't have a consistent enough record to provide clear buying and selling signals. By closely following the electoral pattern, an investor would have avoided stocks during the crashes of 1929 and 1987. But the investor also would have stayed on the sidelines during 1989, when the Dow Jones industrial average soared a whopping 27 percent.

Still, this theory retains a special allure — its implication that man controls the market's destiny, and not some natural cycle with a rhythm of 89 months or 59 years. It also implies that the political process is good for our economic health, and that politicians can successfully manipulate the economy time and again to ensure their re-election.

Recent experience would seem to prove otherwise. But for people who want to believe in cycles, that's a beguiling religion.

## Should Investors Vote for U.S. Stocks in Election Years?

By Conrad de Aenlle

**E**VERY four years about this time, the American presidential race starts getting serious. Even though this time around the campaign seems more on the comical side, at least so far, investment advisers are renewing the debate on whether there is an election cycle that moves the financial markets. If the cycle exists, then stocks ought to get a big upward push next year, all else being equal.

"Supposedly election years are very bullish for stocks because... the powers that be want to be re-elected, so they do whatever they can to make sure the economy stays healthy," explained Lance Stonycypher, vice president of research at the investment analysis firm Ned Davis Research.

This "whatever they can" includes persuading the Federal Reserve Board to keep interest rates low so the economy will keep humming along. That, in turn, means that as many registered voters as possible will keep

**Those who have faith in the election cycle don't have much faith in it working over the next year.**

their jobs, and that, it is reasoned, means the incumbents will be able to keep them.

When interest rates are low, stocks generally bound higher as corporations can borrow more cheaply, there is more money floating around for consumers to spend and the returns on other investments are less attractive.

James Stack, editor of the newsletter InvestTech Market Analyst, is a believer. "It's important to recognize where we are in the four-year political cycle," he said in a recent edition. Writing just after Alan Greenspan was appointed to a new term as Fed chairman, he said that "with Greenspan's reappointment, there'll be increasing pressure to stretch out this recovery at least through November 1992."

He then noted that in 60 percent of election years since 1884, the stock market hit new yearly highs in the period from September through November.

There were some bad years, too, but not many. Only four times in 26 did the market hit a high early in the year and fall as much as 8.5 percent from the high by election time. The worst year was 1920, when the Dow peaked in January and plunged 18.1 percent by autumn.

Another way to carve up the market's history is to look at the average performance of each of the 208-plus weeks in the four-year election cycle, going back through time.

Taking such a look at the Dow Jones industrial average since 1900, a pattern does

seem to unfold. The market ambles along on an apparently random walk for the first two years, gaining about 2 percent. Then, starting at the beginning of the third year, the Dow shoots up by about 12 percent through August, then falls 7 percent through mid-May of election year, then jumps roughly 11 percent heading into the election.

Peter Eliades, editor of the newsletter Stockmarket Cycles, agrees that there is a pattern that correlates with presidential elections, but he doesn't find it especially useful or predictive.

"There is a tendency for prices to reach a bottom the year before elections and do well in election years," he noted, "but it's just a tendency. It doesn't have a perfect record."

He figures that there have been twice as many up election years as down. That's an iffy track record, by his standards, and so he has iffy feelings about factoring the election cycle into his forecasts.

"It's not part of any cycle I necessarily follow," he said, "it's not something I ignore. I take it into account along with a lot of other cycles."

One of those cycles runs for 89 months and should be topping around now. "Every seven years and four or five months," he explained, "we reach a very important high in the market." If it occurs on schedule this time, he said, it should yield greater influence on stocks over the next year than the presidential election campaign.

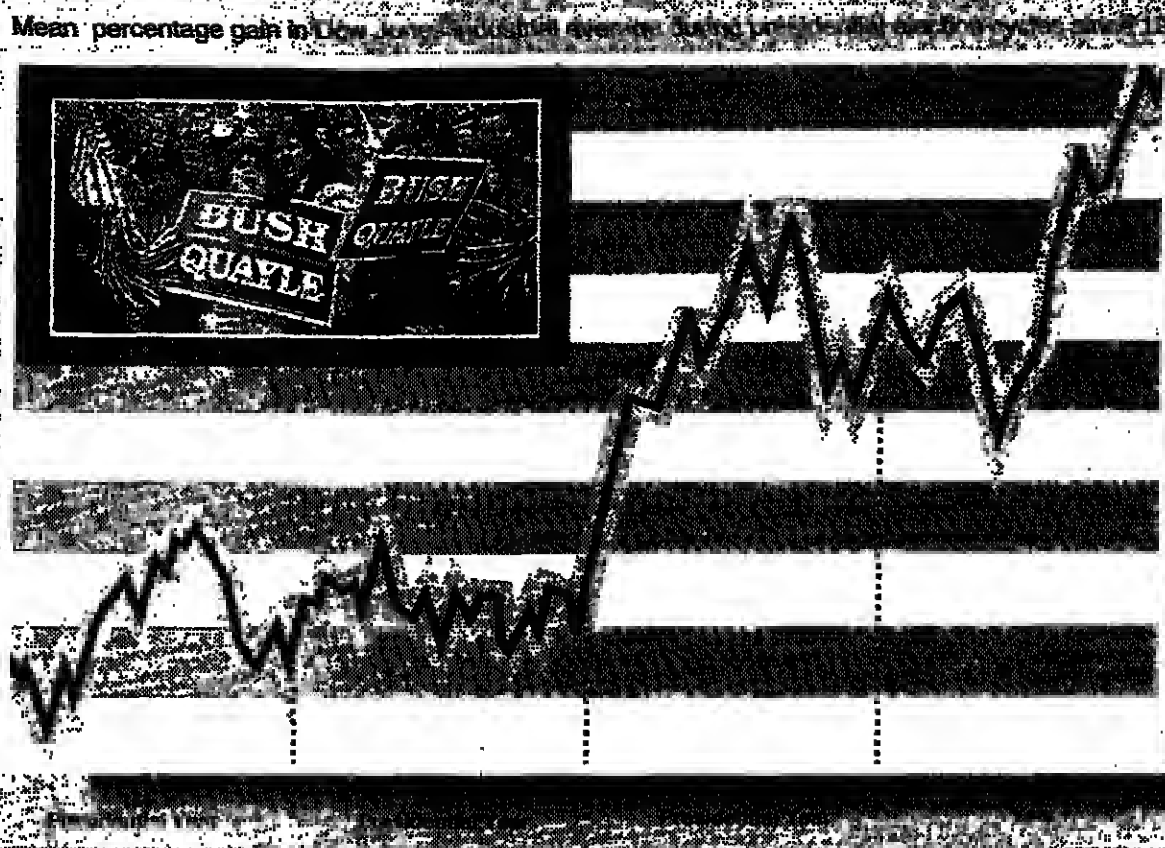
Believers in a presidential election cycle assume a lot — that the Fed has such pinpoint control over the nation's financial machinery as to be able to bring the economy to peak form just in time to get the incumbent party re-elected. It also assumes it would try to help the administration if it could.

"I think there have been times in the past when you have seen that happen, but I think you would have to go back to the Nixon years" to find a Fed that did the administration's bidding, said Raymond Urban, executive vice president at the research firm Duff & Phelps/MCM. "I think the Fed is a lot more independent. I don't think there is really that close of a correlation in the last 10 or 12 years between their actions and the party in power."

There's no question that Fed officials have some weight to throw around when they want to. But, Mr. Urban explained, "any actions they take today have to take their time to work through the system. That can take up to a year. They have to make guesses as to where the economy is a year down the road." If they guess wrong, it might help President George Bush become former President Bush.

"Already we've seen the Fed has been accommodating to the administration 15 months before the next election" because the recovery out of recession has been weak, Mr. Urban said. "Let's say they overdo it and next year the economy is too strong. You could have rising interest rates, rising inflation rates."

### Campaign Promise



Source: Ned Davis Research

If the Fed has been accommodating in its credit policy, cutting the key interest rate it charges banks for loans four times in a row, the economy has not been accommodating in return. When rates go down, people borrow more money. Then they turn around and buy things with it. Then industry makes more things. That's what makes the economy go. But it hasn't happened that way this time, the analysts pointed out.

Americans took on an enormous amount of debt in the 1980s that they haven't paid off yet. So even though the discount rate is as low as it's been in well over a decade, con-

sumers can't afford to borrow much more, and banks can't afford to lend it to them.

"That could be why Fed policy doesn't work now," Mr. Eliades said. But isn't it true that whenever the Fed cuts the discount rate four times in a row, the stock market takes off?

"Absolutely," he agreed, "except for one exception." That was in 1930, when the market was going from bad to much worse. It was also the end of a decade of heavy borrowing, he noted, with a ratio of debt to gross national product that has not been equaled — until now.

Even those who have more faith in the

election cycle don't have much faith in it working over the next year.

Mr. Stonycypher also cited the nation's heavy debt load and acknowledged that after four successive cuts that have put the discount rate at 5 percent, the Fed has left itself little room to maneuver.

He noted, too, that share prices have reached historically high levels by several valuation measures, and that Mr. Bush has reached historically high approval ratings. That means his re-election "has already been pretty well discounted in the market," he said, and that's why he is discounting the election cycle this time around.

## A Pivotal Point for British Stock Market

By Rupert Bruce

**T**HESE are dangerous times for investors and forecasters in the British stock market. The market has risen 20 percent since the beginning of the year in expectation of an economic recovery and is now waiting around for it to happen. What's more, election fever is in the air as recent opinion-poll gains by the ruling Conservatives have heated up speculation on the prospects for an early ballot.

If the recovery comes much later than at the end of the year or is less robust than expected, there is a risk the market could fall in disappointment. If it is stronger than expected the market could rise swiftly.

As with the economy, most analysts believe the market's fortunes are tied closely with those of the Conservative Party. A Conservative victory in the general election that must be held by June, but which many political observers now expect in November, is expected to give stocks a boost while a win by the opposition Labour Party could trigger a major setback, analysts say.

Most strategies stick close to the herd rather than risk their reputations. They believe the market is fairly valued with the Financial Times-Stock Exchange index of 100 leading shares now trading slightly below 2,600. But two in particular disagree. The team at James Capel thinks the market should rise steadily and strongly into next summer, while their rivals at the Japanese broker Nomura believe stocks are heading for a fall.

According to all traditional valuation techniques, the British market is fairly valued. The ratio of price divided by the last set of earnings per share — known as the historic price/earnings ratio — is at an unremarkable 14.5 and the average dividend yield is also quite normal at 4.5 percent.

But Paul Walton at James Capel predicts that British companies will surprise themselves and most forecasters next year. The key is Capel's optimistic forecast that the British economy will grow 2.6 percent next year after a fall of 1.7 percent in 1990. When he adds inflation to that and substantial increases in profit margins thanks to improving productivity, Mr. Walton calculates that company earnings should grow by an average of about 25 percent next year.

That is far more than the market consensus, and also more than the forecasts of the firm's individual company analysts. But Mr. Walton contends that company analysts have not yet looked in detail at their 1992 forecasts because they are so preoccupied with 1991. Furthermore, he says their record at previous turning points has been poor: analysts were caught on the hop by both the 1989 downturn in earnings and the 1983 recovery.

When Mr. Walton works out how his forecast will affect the FT-SE 100 index, he comes up with a level of 2,750 for the end of 1991 and 3,200 for the end of 1992. These figures rely on historic price/earnings ratios remaining at their current levels, which Mr. Walton is expecting.

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**N**OMURA offers a different view of current valuations and the prospects for growth to come up with its gloomy predictions. The firm contends that the stock market is already discounting what it regards as the best possible outcome: a rise of 15 percent in company earnings next year.

"We feel there is a very big risk of a much more anemic recovery than what has been generally forecast," said Anthony Brocard, a strategist at the firm. There is a fair case that the expectations of investors and analysts could fall off a cliff, he added.

Expectations have fallen after most recent recessions or slowdowns, according to Nomura's research. The brokerage is predicting that the thing to happen this time around, taking the historic price/earnings ratio down toward 10. Nomura forecasts that such a move would drag the FT-SE 100 down to 2,400 by the end of 1991, before resuming its upward path and reaching 2,700 at the end of next year.

Shifting from gloomy to apocalyptic, Nomura sees a strong likelihood of another crash. The British market is vulnerable to shocks, in the brokerage's view, because institutional investors such as mutual funds now have all but 5 percent of their portfolios invested, and the remaining cash is in demand from an ever increasing number of rights issues.

Looking around there is no shortage of potential portfolio crises. Within Britain, the Conservatives might lose the next election, or the pound could come under pressure within Europe's Exchange Rate Mechanism

and force the government to raise interest rates.

Outside Britain there are risks everywhere. The highly valued U.S. stock market could tumble, there could be yet more trouble in the Soviet Union or Japan's stock market could fall.

Certainly an early general election is a strong possibility, Mr. Walton believes. Prime Minister John Major might use the Conservative Party Conference in the second week of October to call for a general election in November — probably on Nov. 7.

A Conservative victory would lift the FT-SE 100 index to 2,900 in Mr. Walton's view. A Labour victory could see the market fall back to 2,400 for a short while, he said, but any such decline would merely represent a good long-term buying opportunity.

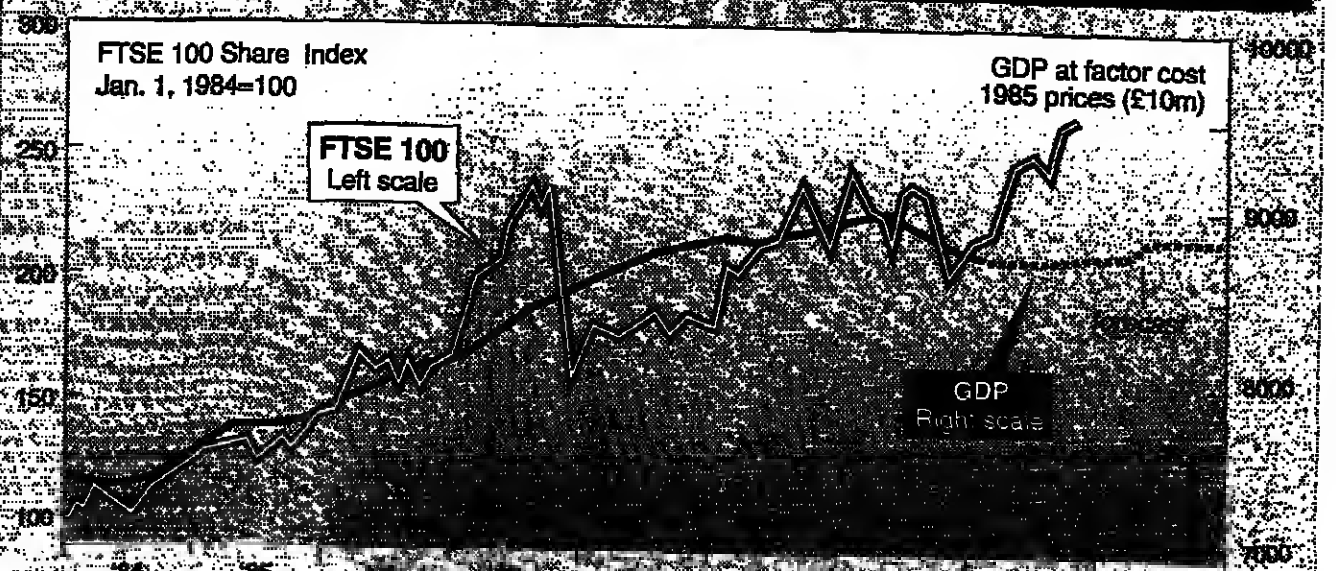
The Conservatives have rallied in recent months to stand even with or modestly ahead of the Labour party in the opinion polls right now, but investors who are worried about the possibility of a Labour victory could buy a traded option as insurance. The price of insuring a £100,000 portfolio would be high — about £1,600 at current prices. This is mainly the cost, or premium on, the option, although it also includes the broker's commission.

For that price, investors would get four 2,550 put options expiring on the last trading day of November. Basically, the gain in the options contract would equal the loss on a portfolio of shares spread across the components of the FT-SE 100 index once it fell below 2,550.

Investors who believe there will be an early election and have a firm view as to how the market might react can place a cheap bet by buying a traded option on the FT-SE 100 index expiring at the end of November, said Richard Royden, a derivatives product salesman at James Capel. Options are very cheap now because market makers are expecting a period of low volatility. If an election is called and the stock market weakens, holders of put options could make big money. Anyone expecting the market to rise on an election announcement would want to consider buying call options.

The election aside, traded options will not be of much use as insurance against Nomura's pessimistic scenario. The best way of preparing for that is to take the broker's advice and sell. There is no need for insurance, however is you believe in James Capel's forecast.

### Waiting for an Economic Recovery



## Sowing the Seeds

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## THE MONEY REPORT

## Weighing Cost and Service at Brokers

By Katherine Burton

**T**HE experienced — or at least cynical — investor knows the arguments against full-service U.S. brokers. They are expensive. They call at dinner time to try to sell you the latest funds or stocks. And there's the question of trust. Can you have faith in someone who makes money every time you trade, even if you lose out?

Discount brokers, on the other hand, charge much less than their full-service competitors. But cost is only one factor, and it can be a secondary one for less-sophisticated investors or those who are living outside the United States.

Full-service brokers defend the cost difference by saying that you get what you pay for, and that they are more expensive than discount brokers because they offer more services. The higher commissions and fees support extensive research departments. Clients get a personal adviser who can suggest investments or at least offer a second opinion, and someone who watches the market and the news for events that might affect an investment.

Of course, some investors like the security of a full-service broker, or don't feel their knowledge of various financial markets is adequate to deal with a discount broker, who only executes trades, no advice proffered.

Such investors, however, need not despair that they will forever pay commissions that are 50 to 75 percent higher than discount brokers. The high-price firms will negotiate their fees.

"This is a business like any other, and if an account is valuable we will offer discounts to keep it," said one brokerage executive, who asked not to be identified.

What's a valuable account? One that doesn't take up a lot of the broker's time in terms of explanations and advice, but trades often and in large sums.

Just how much you have to invest and trade to get a discount, no one will say. It's certain, however, that investors with accounts below \$50,000 that trade only a few times a year, or work in equity deals of less than 100 shares, would not have much clout in bargaining commissions down.

But investors can probably get discounts of 15 to 25 percent if they generate lots of commissions for the broker, say trading thousands of shares of stock at one time, or actively investing hundreds of thousands of dollars in bonds or other financial instruments, without demanding too much hand-

## Comparing Commissions

Service	100 Shares	500 Shares	1,000 Shares	2,000 Shares
Discount	\$2.50	\$7.50	\$9.00	\$18.00
Quick & Reilly	\$49.00	\$77.75	\$120.00	\$162.00
Schwab	\$49.00	\$91.50	\$180.00	\$181.00
Fidelity	\$51.00	\$97.25	\$174.00	\$198.75
Merrill Lynch	\$78.25	\$205.54	\$356.48	\$651.00
Dean Witter	\$76.35	\$194.80	\$402.53	\$712.91

Source: Charles Schwab &amp; Co.

holding. To get discounts, investors first have to ask for them and second, prove they are worthy of them.

"If people don't ask, a broker won't offer a discount," said Eric Kuhns, senior vice president and managing director of Shearson, Lehman, Hutton in Paris. "I have many clients who never talk about discounts. Also, a broker won't give away the shop the first day."

Other brokers agree that customers have a better chance of gaining discounts if they have a track record.

"If you've been a client of Smith Barney a certain number of years and you execute a certain number of trades, you can get a reduction on a commission," said Robert Connor, a spokesman for Smith Barney, Harris Upham & Co. in New York.

**B**UT even investors who obtain a discount will still pay higher fees than a cut-rate firm would charge. The next logical question: are full-service brokers worth the cost?

"There is less and less difference between full-commission brokers and discount brokers like Schwab, Fidelity and Quick & Reilly, except, of course, for price," said Mark Thompson, who is vice president of Charles Schwab & Co. in San Francisco, the nation's biggest discount brokerage. Customers at these three major discount firms can invest not only in equities and options on U.S. exchanges, but also in money market funds, mutual funds, fixed-income investments and certificates of deposit.

The big three also offer Cash Management Accounts — made popular by Merrill Lynch — which provide checking privileges and, for Schwab and Fidelity clients, credit cards annexed to a brokerage account. Like other costs involved in dealing with cut-rate brokers, deposits to open CMA's are gener-

ally much lower — Quick & Reilly's is \$500 compared to \$20,000 at Merrill Lynch — and so are the annual fees, although both types of brokers offer roughly the same interest rates on the "idle" portions of the account.

For investors living abroad, however, there are certain advantages to having a full-service account. The largest brokerage firms have retail offices in major European and Asian cities, giving their clients access to foreign currency and stock markets. In contrast, none of the discount houses run such offices outside of the United States.

But low-cost brokers are becoming more conscious of global business. The three majors offer 24-hour, seven-day-a-week access to accounts, and Schwab and Fidelity provide toll-free international telephone lines for overseas customers.

Clients also can place orders through personal computers, although none offer toll-free numbers for computer links as yet. As a greater incentive to using the phone or PC, Schwab offers 10 percent discounts on trades executed in these ways.

As for research, the discount brokers do provide minimal research free-of-charge, such as reports on stocks, company earnings or on the best performing mutual funds.

There remains the question of advice. "Seventy-five percent of brokers don't match the performance of the S&P 500," said Mr. Thompson of Schwab. "We suggest that investors who are looking for advice choose a well-performing mutual fund or use a financial adviser, whose fee is dependent on the performance of the investment."

## No Sparkle in Diamond Outlook Despite a World of Wild Rumors

By David Lanchner

**S**PECULATIVE talk is rife in the diamond market. One alarmist scenario envisions Siberian authorities, desperate for hard currency, taking over Soviet diamond production and flooding the world market. Another predicts that a faster-than-expected world economic recovery will ignite prices.

But in spite of the talk, the immediate price trajectory for diamonds is likely to remain flat. The reasons are simply the current lack of demand and the ability of the De Beers Central Selling Organization to control the market.

The CSO operates out of London and controls 80 percent of the world's rough, or uncut, diamond sales. It is the effective middleman for the world's diamond mines.

"They have an almost foolproof buffer stock system," said Josef Flies, chief economist for the Diamond High Council of Belgium, a trade organization based in Antwerp. De Beers supports diamond prices through stockpiling when times are bad, then releases supplies only when demand picks up. The policy has been so successful that prices for unprocessed diamonds, known as rough, have never fallen.

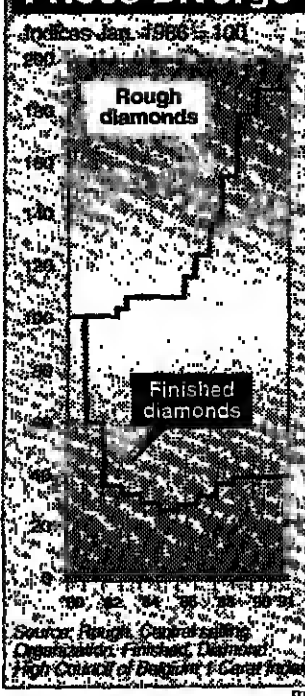
"Whoever controls the mines and however strong the temptation is to sell directly or massively, steady revenues depend on the continuation of the De Beers monopoly," said Albert Lovell, a mining analyst at the London brokerage Smith New Court PLC. That fact is likely to keep potential price spotters like the Soviet Union in line.

But although prices for rough diamonds have never fallen, prices for finished stones, which individual investors can buy, have.

The Antwerp High Council's index of one-carat finished stones is off 61 percent from its 1980 peak, although it has recovered significantly from its mid-'80s low. The index has shown little movement over the past three years.

"De Beers tries to keep effective control over prices throughout the market but they've lost control of

## Prices Diverge



values further down the line before and they may again," said Martin Rapaport, a broker and editor of the Rapaport Diamond Report.

Wholesale dealers around the world base their prices on discounts of diamond values published in Mr. Rapaport's weekly newsletter. Currently, he quotes the industry benchmark, a one-carat D-flawless diamond, at \$17,000, down from a peak of \$66,000 in March 1980, but up from a low of \$12,500 in January 1986.

Mr. Rapaport said that in the late 1980s when diamond demand was exceptionally strong, De Beers kept supplies unusually tight and was able to raise rough diamond prices by 54 percent from November 1986 to March 1989. Retail prices for finished stones also advanced, but not as much.

With consumer demand slowing more recently and De Beers holding rough prices firm, finishers and jewelers have had to pare inventories to minimal levels, Mr. Rapaport said.

BRIEFCASE  
American Exchange Looks To Europe for New Indexes

The American Stock Exchange is going abroad to find new vehicles to trade. The exchange has filed for approval from the Securities and Exchange Commission to trade warrants and options on three European stock indices, said Shelly Wolfe, a spokeswoman for the exchange.

The indices are the Eurotop 100, based on 100 stocks traded in London but headquartered in Continental Europe and Ireland; the Eurotop 100, which measures the performance of 100 heavily traded issues in nine countries; and the Financial Times-Accrington index of 527 heavily capitalized companies in 14 countries.

Ms. Wolfe said the exchange may not list both options and warrants on all three indices but wanted to be able to trade all of them should it feel that there was sufficient demand. SEC approval was expected before the end of the year.

## Barclays Opens New Sector With a U.K. Property Fund

Mutual funds investing in real estate have only been able to be freely marketed to the British public since the beginning of the month — and the fund investment arm of Barclays Bank has wasted no time in launching its first property fund, the Barclays Unicorn Property Trust.

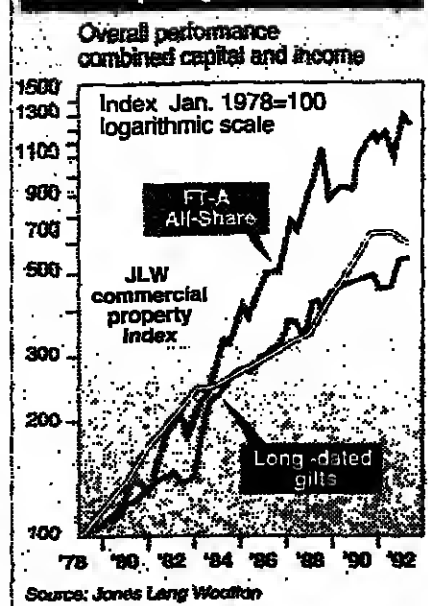
The fund, which is authorized by the British government, already has some £20 million (\$34.7 million) under management. It had existed as an unauthorized fund, incapable of being sold to the general public, before being converted to a regular unit trust.

The fund is designed "to offer the private investor the chance to put money into high quality commercial bricks and mortar," said Peter Dennis, managing director of Barclays Unicorn. He said British property prices

were "at a low point in the cycle," but demand for property was "beginning to increase."

For more information, call Barclays Unicorn in London on (44 71) 248 9155.

## Middling Performance for Property



Source: Jones Lang Wootton

## Unit Investment Trusts Had Big Inflow of Money in July

Investors poured nearly \$850 million into unit investment trusts in July, bringing the total for the year to \$4.94 billion, according to data compiled by the Investment Company Institute, the mutual fund industry's trade association. The year-to-date figure is

17 percent higher than for the first seven months of 1990.

A UIT is a pooled investment that buys a fixed portfolio of securities, usually bonds, and pays out interest or dividends periodically, then returns the entire amount each shareholder put up, minus fees, at a predetermined maturity date.

Of the \$846.6 million invested in July, \$592.4 million went into tax-free bond trusts, and \$144.9 million was put into taxable bond trusts.

The strong growth in UITs parallels that of bond mutual funds. Both categories have benefited from the plunge in short-term interest rates, which has made money market funds and bank deposits unattractive.

## Hafnia Offers Fund Portfolio Via an Insurance Package

Hafnia Prolific International Life Assurance has set up shop on the Isle of Man, offering three investment portfolios packaged as single-premium life insurance policies.

The portfolios vary in the freedom they allow investors in choosing the individual vehicles their money goes into, explained Stuart Fairclough, managing director of Hafnia Prolific, a unit of the large Danish insurer Hafnia Holding A/S.

The Capital Investment Portfolio offers a mix of 20 Prolific equity and bond funds that place their assets in several markets around the world. In the Select Investment Portfolio, policyholders can choose among funds in and out of the Prolific group. In the Personal Investment Portfolio, they can put their money into just about anything they want.

The advantage of doing that through an insurance vehicle, rather than through conventional trading with a broker, Mr. Fairclough said, is that investment gains may be taxed at a more favorable rate depending on the investor's country of residence. And, of course, there is a death benefit if the investment outlives the policyholder.

Additional information is available from Hafnia Prolific at (44 624) 677446.

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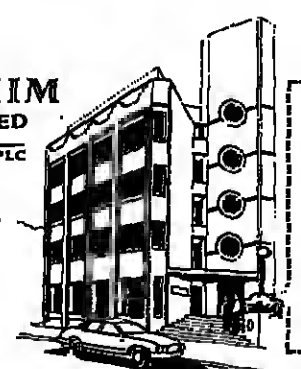
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